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TO RUEHC/SECSTATE WASHDC 6392
INFO RUEHRI/AMCONSUL RIO DE JANEIRO 2695
RUEHRG/AMCONSUL RECIFE 5303
RUEHSO/AMCONSUL SAO PAULO 7765
RUEHBU/AMEMBASSY BUENOS AIRES 4203
RUEHAC/AMEMBASSY ASUNCION 5595
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RUEHBO/AMEMBASSY BOGOTA 3888
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SUBJECT: BRAZILIAN INDUSTRY AND GOVERNMENT REACT TO THREAT TO GSP
BENEFITS

REF: STATE 128359

11. (SBU) Summary. During recent days, both local policymakers and entrepreneurs have begun to marshal arguments in favor of Brazil retaining eligibility for GSP benefits should that legislation be renewed by the U.S. Congress. Economic and trade officials have raised the issue with the Ambassador, noting, inter alia, that in view of the progress Brazil has made on copyright piracy, the GOB would see withdrawal of GSP benefits as "hitting below the belt." Meanwhile, the Sao Paulo AmCham is contacting Congress directly, particularly those members whose districts include ports where Brazilian GSP imports enter. Our interlocutors have also employed the argument that dropping Brazil from GSP would simply provide China with greater space to increase its exports to the U.S. As far as we know, the only U.S. company that publicly opposes Brazilian graduation from GSP is Cummins, Inc, which has submitted comments to USDOC. Others may make their views known as the debate progresses. End Summary.

GOB Reaction

12. (SBU) In an August 8 meeting with the Ambassador (reported septel), Minister of Development, Industry, and Commerce Luiz Furlan said that in the wake of all that the GOB had done positively on copyright piracy, if the USG were to exclude Brazil from GSP policymakers here would take this badly. The early 2006 termination of the U.S. copyright industry's petition to revoke Brazil's GSP benefits reflected an implicit bargain, he declared: i.e., Brasilia would continue to improve its performance on IPR enforcement while Washington would maintain Brazil within GSP. Furlan noted that recently Brazil and the U.S. had improved their trade relations through the Commercial Dialogue that he and Secretary Gutierrez had inaugurated during the latter's June 2006 visit to Rio de Janeiro. He worried that a negative decision on GSP might halt momentum as Brazil would see this as "hitting below the belt."

13. (SBU) On August 9, Central Bank Chief Henrique Meirelles echoed this line in a conversation with the Ambassador, noting that if the USG were to withdraw GSP benefits from Brazil such a move would

reinforce "negative elements" within the government community with respect to the United States. Brazilian Ambassador to the U.S. Roberto Abdenur has made similar comments in various meetings with USG policymakers.

Private Sector Views

14. (U) Industry officials repeat the line that withdrawing GSP would be contrary to the spirit of our mutual commitments on IPR. As one influential private sector spokesman asked us, now that the local business community is leading the fight against IPR piracy, why punish Brazil now? Meanwhile, the Sao Paulo American Chamber of Commerce (the largest AmCham in the world) estimates that Brazil could face losses of US\$300 million to US\$ 400 million a year if removed from the GSP. The AmCham is taking its case against graduation directly to the U.S. Congress as it has just sent letters to 55 representatives and 38 senators informing them of the importance of GSP imports from Brazil for the companies in their district. The AmCham has, in particular, targeted members whose districts include ports which receive Brazilian GSP imports.

15. (U) For instance, in its correspondence to mid-Atlantic members AmCham notes that in the 11th Customs District (comprising ports in the Philadelphia area) 31.36 percent of its GSP imports (representing US\$126.7 million) come from Brazil. The principal Brazilian GSP products exported to the 11th Customs District included wood, aluminum, electrical machinery, fruits/nuts, and nuclear reactor parts. The AmCham noted that duties for Brazil's GSP exports to the district ranged from 0.4 percent to 29.8 percent, with the averaging tariff coming in at 4 percent. All told, the AmCham calculates, U.S. firms in the 11th Customs District saved over US\$4.8 million because of Brazilian eligibility for GSP. The AmCham presented similar figures for the Customs Districts of

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Baltimore, Charleston, Chicago, Houston, Miami, Mobile, New York, New Orleans, Norfolk, and Savannah.

The Possible Impact of China

16. (SBU) Finally, Brazil industry and government officials have shown increasing concern about the impact domestically of rising imports from China. Given their worries about GSP, they are now broadening their focus to argue that graduating Brazil from GSP would only further Chinese penetration (at their expense) into the U.S. import market. In a recent meeting with the Ambassador, Roberto Gianetti da Fonseca of the influential Industrial Federation of the State of Sao Paulo employed precisely this line of thinking, observing that Brazilian exports would simply be replaced by Chinese goods. As the debate here progress on these issues, we expect that other interlocutors will reiterate this point.

Sobel